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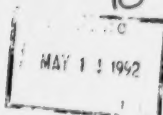
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SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

FORM 10-Q



(X) Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 1992 or

() Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 0-19437

CELLULAR TECHNICAL SERVICES COMPANY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

11-2962080

(I.R.S. Employer Identification No.)

2401 Fourth Avenue, Seattle, Washington

98121

(Address of Principal Executive Offices)

(Zip Code)

(206) 443-6400

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

3,150,000 Common Shares were outstanding as of May 8, 1992.

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CELLULAR TECHNICAL SERVICES COMPANY, INC.

INDEX

Page
Number

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Balance Sheets	
	March 31, 1992 (unaudited) and December 31, 1991.....	3
	Statements of Operations for the	
	Three Months Ended March 31, 1992 and 1991 (unaudited).....	4
	Statements of Cash Flow for the	
	Three months ended March 31, 1992 and 1991 (unaudited).....	5
	Notes to Financial Statements (unaudited).....	6
Item 2.	Management's Discussion and Analysis of Financial Condition	
	and Results of Operations.....	7

PART II - OTHER INFORMATION

Item 6.	Exhibits and Reports on Form 8-K.....	9
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CELLULAR TECHNICAL SERVICES COMPANY, INC. **BALANCE SHEET**

	March 31, 1992 (unaudited)	December 31, 1991
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,073,869	\$3,626,211
Accounts receivable	790,674	762,581
Receivables from related parties	45,258	62,253
Inventories	263,156	196,990
Prepaid expenses	99,306	224,350
Total Current Assets	<u>4,272,263</u>	<u>4,872,385</u>
PROPERTY AND EQUIPMENT, net	859,778	822,858
SOFTWARE DEVELOPMENT COSTS, net	1,125,240	945,322
OTHER ASSETS, net	<u>6,825</u>	<u>7,878</u>
TOTAL ASSETS	<u>\$ 6,264,106</u>	<u>\$6,648,443</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 681,045	\$ 451,455
Accrued expenses	141,946	146,756
Customer's deposit	--	323,021
Deferred revenue	109,128	85,918
Total Current Liabilities	<u>932,119</u>	<u>1,007,150</u>
STOCKHOLDERS' EQUITY		
Preferred Stock, \$0.01 par value per share, 5,000,000 shares authorized, none issued and outstanding		
Common Stock, \$0.001 par value per share 15,000,000 shares authorized, 3,150,000 issued and outstanding	3,150	3,150
Additional paid-in capital	8,128,706	8,128,706
Deficit	<u>(2,799,869)</u>	<u>(2,490,563)</u>
Total Stockholders' Equity	<u>5,331,987</u>	<u>5,641,293</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$6,264,106</u>	<u>\$6,648,443</u>

The accompanying notes are an integral part of these financial statements.

CELATIAN TECHNICAL SERVICES COMPANY, INC.
STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,	
	1992	1991
REVENUES		
License and service fees	\$ 816,333	\$ 360,695
Equipment sales	469,822	18,533
Other income	36,875	--
Total Revenues	<u>1,323,030</u>	<u>379,228</u>
COST AND EXPENSES		
Cost of licenses and services	352,002	119,131
Cost of equipment sold	541,322	209,371
Selling, general and administrative	457,469	147,436
Research and development	281,543	261,038
Total Costs and Expenses	<u>1,632,336</u>	<u>736,976</u>
NET LOSS, before Partner's interest in loss	(309,306)	(357,748)
PARTNER'S INTEREST IN LOSS	--	202,744
NET LOSS	<u><u>\$(309,306)</u></u>	<u><u>\$ (155,004)</u></u>
 NET LOSS PER SHARE OF COMMON STOCK	 <u><u>\$ (0.10)</u></u>	 <u><u>\$ (0.16)</u></u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u><u>3,150,000</u></u>	<u><u>1,000,000</u></u>

The accompanying notes are an integral part of these financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.
STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31,	
	1992	1991
OPERATING ACTIVITIES		
Net loss	\$(309,306)	\$(155,004)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	168,917	71,755
Partner's interest in loss		(202,744)
Increase (decrease) in deferred revenue, net	23,210	(38,040)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(28,093)	8,206
Decrease in receivables from related parties	16,995	9,111
(Increase) decrease in inventory	(66,166)	142,241
Decrease(increase) in prepaid expenses	125,044	(2,523)
Increase in accounts payable	229,590	14,849
(Decrease) in accrued expenses	(4,810)	(71,884)
(Decrease) in customer's deposits	(323,021)	--
NET CASH USED IN OPERATING ACTIVITIES	<u>(167,640)</u>	<u>(224,033)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment, net	(106,479)	(71,312)
Capitalization of software development costs	(278,223)	--
NET CASH USED IN INVESTING ACTIVITIES	<u>(384,702)</u>	<u>(71,312)</u>
FINANCING ACTIVITIES		
Cash contributions from Partner	--	145,000
Advances from affiliate	--	145,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>--</u>	<u>290,000</u>
(DECREASE) IN CASH AND CASH EQUIVALENTS	(552,342)	(5,345)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>3,626,211</u>	<u>22,257</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$3,073,869</u></u>	<u><u>\$ 16,912</u></u>

The accompanying notes are an integral part of these financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

Note A - Basis of Presentation

The accompanying unaudited Financial Statements of Cellular Technical Services Company, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the three month periods are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 1992. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

On August 12, 1991, the Company exercised its option to purchase for \$1,300,000 the 50% interest owned by NYNEX Mobile Billing Services, Inc. ("NYNEX") in Cellular Technical Services Company (the "Partnership") which Partnership was previously owned equally by NYNEX and the Company. The Balance Sheets, Statements of Operations and Statements of Cash Flows for all periods presented give effect to the combination of the assets, liabilities and results of operations of the Partnership with those of the Company in order to provide a more meaningful comparison between those periods presented.

Note B - Reclassifications

For 1991 financial statement presentation, \$99,399 has been reclassified from selling, general and administrative expenses to various cost categories to reflect the allocation of direct overhead expenses. In addition, customer services costs of \$23,822 for 1991 have been reclassified from selling, general and administrative expenses to cost of services in order to reflect direct costs of license and service fees. Other amounts, none of which are material, have been reclassified to conform to the 1992 presentation.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following information should be read in conjunction with the unaudited financial data and the notes thereto included in Item 1. of this Quarterly Report and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

RESULTS OF OPERATIONS

Three months ended March 31, 1992 compared to three months ended March 31, 1991.

Revenues in the first quarter of 1992 were \$1,323,030 or 249% higher than the first quarter of 1991. The increase is primarily attributed to implementation of the Company's Hotwatch™ System Agreement with LIN Broadcasting Corporation ("LIN") and American Cellular Communications ("ACC") that was signed in January 1991. License revenues from the LIN/ACC agreement amounted to \$409,000 during the current year's quarter versus \$19,000 in the prior year's quarter. In addition, \$465,000 of revenues from equipment sales to LIN/ACC were recorded during 1992, while there were no such sales during 1991.

Other income of \$36,875 in 1992 is attributable to interest earned from the investment of the proceeds of the Company's initial public offering in August 1991.

Cost of licenses and services, which consists primarily of customer service, engineering support costs and amortization of capitalized software increased by \$232,871 or 19% to \$352,002 from \$119,131. Of the increase, \$81,000 relates to increased amortization of purchased and internally developed software for products (primarily Hotwatch) currently being sold by the Company. The remaining costs are attributable to the increase in the number of personnel and related overhead costs required to meet the increased service activity in support of the Company's expanded customer base.

Cost of equipment sold, which includes purchased hardware and allocated engineering and installation costs, increased by \$331,951 or 15% to \$541,322 in 1992 from \$209,371 in 1991. The 1992 costs are primarily associated with the equipment sales and installation costs under the LIN/ACC Hotwatch Agreement and to a lesser extent engineering related installation costs of various other systems. The 1991 costs include a \$116,387 provision to write down inventory to net realizable value. Recognition of these charges was necessitated by management's decision to utilize integrated data processing equipment purchased from outside vendors as opposed to integrating systems from existing and acquired component parts. This inventory had limited value to the Company's future plans and little to no liquidation value. Management believes that by eliminating the need to integrate and maintain data processing systems, the Company will be better able to focus on software development and support.

Selling, general and administrative expenses increased by \$310,033 or 21% to \$457,469 from \$147,436 in 1991. Of the increase, \$75,000 relates to management fees paid by the Company to its parent, Nationwide Cellular Service, Inc. ("Nationwide"). In addition, selling and marketing expenses increased by \$111,000 in 1992 as the Company has begun the expansion of its sales and marketing efforts. In late 1990, management of the Company concluded that it was in the Company's best interest to further refine and test its newly developed products, primarily Hotwatch, prior to engaging in further extensive marketing activities. The marketing function and related activities were resumed in the fourth quarter of 1991. The remaining cost increases are attributable to administrative related and overhead expenses incurred in connection with the expansion of the Company's operations and costs associated with being a public company, and increased salaries and benefits paid to the Company's President and newly hired Chief Financial Officer.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Research and development costs increased by \$20,505 or 8% to \$281,543 in 1992 from \$261,038 in 1991. Software development costs of \$278,223 were capitalized in accordance with Statement of Financial Accounting Standards No. 86 ("FASB 86"), "Accounting for Software Development Costs". These amounts relate almost entirely to the Company's Hotwatch product. Without giving effect to the capitalization of software development costs under FASB 86, the Company incurred gross research and development expenditures of \$559,766 during 1992, which represent a \$298,728 or 114% increase from 1991. These expenditures reflect the Company's investment in additional personnel and related expenses to support the continued commitment to new and improved products, which primarily related to the Hotwatch system.

Partner's interest in loss in 1991 of \$202,745 represents the NYNEX share of the Company's loss for the first quarter of 1991. The Company purchased the NYNEX interest in August 1991 and accordingly all subsequent profits and losses are retained by the Company.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 1992, the Company's cash on hand was \$3,073,869 as compared to \$3,626,211 on December 31, 1991. The \$552,342 reduction resulted from funding the \$309,306 net loss for the quarter, investments of \$106,479 and \$278,223 in property and equipment and capitalized software development costs respectively and, to a lesser extent, changes in various working capital components. As a result, the Company's working capital decreased to \$3,340,144 at March 31, 1992 from \$3,865,235 at December 31, 1991. During the first quarter of 1992, the Company made and will in the foreseeable future, continue to make large investments in software development and related capital assets in support of its expansion plans to provide software products to the cellular industry.

On February 19, 1992, the Company exercised its right to redeem, at a price of \$.25 per Warrant, all 1,150,000 Warrants issued in connection with its initial public offering of securities consummated on August 13, 1991. The Warrants were exercisable until the close of business on May 1, 1992 (which date was extended from April 21, 1992), at which time, the right to exercise the Warrants was to terminate. Warrant holders who exercised their Warrants will receive one Class A Warrant to purchase one share of Common Stock for each four Warrants so exercised. No fractional Class A Warrants will be issued. The new Class A Warrant is exercisable at a price of \$8.00 per share for a period of three years ending May 12, 1995 and is redeemable at \$0.25 per Warrant by the Company, with the consent of the underwriter, at any time after May 17, 1993. Substantially all of the Warrants were exercised as of May 1, 1992 and net proceeds from this transaction (net of fees, commissions, expenses and warrant redemption) are estimated at \$5,400,000.

The Company believes that existing funds plus the proceeds received from the Warrant exercise will be sufficient to fund its operations for at least the next twelve months.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

PART II OTHER INFORMATION

Item 6. Exhibits and Report on Form 8-K

- a) None
- b) No reports on Form 8-K have been filed during the quarter for which this report is filed.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

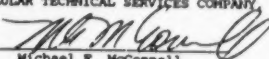
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

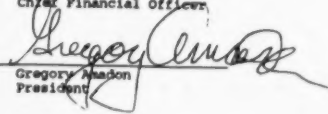
Dated: May 13, 1992

By:


Michael E. McConnell
Chief Financial Officer

Dated: May 13, 1992

By:


Gregory Meadon
President